



**CHUCK QUACKENBUSH**  
INSURANCE COMMISSIONER

July 1999

Dear Insurer:

The California Department of Insurance (CDI), Fraud Division, is noticing insurers of their annual Special Investigative Unit (SIU) Compliance Report filing deadline date of September 16, 1999, as required by California Code of Regulations (CCR), Title 10, Section 2698.40 et seq.

The 1999 annual SIU Compliance Report format has been revised to facilitate the reporting of complete and accurate information regarding the creation and maintenance of your SIU for the purposes, objectives, functions and activities that are set forth in regulation. Report format improvements were made due to inspection/audit team findings that revealed unclear or incomplete descriptions of SIU operations. The 1999 report format is designed to capture descriptions of SIU anti-fraud plans as well as activities conducted during the 1998 calendar year. The 1999 report format is divided into three distinct sections; a certification page, a SIU personnel directory and a four-part regulatory questionnaire section.

The CDI, Fraud Division, SIU Inspection/Audit Unit will be actively verifying compliance with the SIU regulations. The Inspection/Audit Unit will compare the contents submitted on the annual SIU Compliance Report to the actual on-site SIU operation.

All insurers are requested to complete the enclosed 1999 SIU Compliance Report using the format and instructions provided. The SIU Compliance Report must be postmarked no later than September 16, 1999, and sent to:

California Department of Insurance, Fraud Division  
Attention: SIU Report Coordinator  
9342 Tech Center Drive, Suite 100  
Sacramento, California 95826-2558

Questions and requests for assistance in completing this report should be directed to Darlene Wardle, SIU Report Coordinator, (916) 854-5776.

As Insurance Commissioner, I am committed to our anti-fraud efforts. I believe that effective SIU's are critical to our continued success and that by working together, we can make a difference in fighting fraud in California. A sound anti-fraud program that includes a productive SIU, supported by corporate leadership, will affirm regulatory compliance, reduce incidents of fraudulent insurance claims, and maintain affordable insurance costs for California consumers.

Sincerely,

Chuck Quackenbush  
Insurance Commissioner

Enclosure

**300 CAPITOL MALL, SUITE 1500  
SACRAMENTO, CALIFORNIA 95814**

CALIFORNIA CODE OF REGULATIONS,  
TITLE 10, CHAPTER 5 SUBCHAPTER 9, ARTICLE 2  
*Section 2698.40*

**ARTICLE 2: SPECIAL INVESTIGATIVE UNIT REGULATIONS (SIUs)**  
**1999 Annual SIU Compliance Report**

The 1999 annual SIU Compliance Report format has been revised to facilitate the reporting of complete and accurate information regarding the creation and maintenance of your SIU for the purposes, objectives, functions and activities that are set forth in regulation. Report format improvements were made due to inspection/audit team findings that revealed unclear or incomplete descriptions of SIU operations. The 1999 report format is designed to capture descriptions of SIU anti-fraud plans as well as activities conducted during the 1998 calendar year. The 1999 report format is divided into three distinct sections; a certification page, a SIU personnel directory and a four-part regulatory questionnaire section.

Insurers are requested to complete the enclosed 1999 SIU Compliance Report using the format and instructions provided. The SIU Compliance Report must be postmarked no later than **September 16, 1999**.

**Every insurer is required to file an annual SIU Compliance Report, to the CDI, Fraud Division with the exception of insurance companies writing less than \$500,000.00 in California premium which are required to report biennially. Title insurers are excluded from maintaining a SIU in accordance with CIC , Section 12400.1 Article 5.6 (commencing with Section 1875.20) of Chapter 12 of part 2 Division 1, enacted July 1, 1994.**

CALIFORNIA CODE OF REGULATIONS

*SECTION 2698.44.                      OVERSIGHT OF SPECIAL INVESTIGATIVE UNIT MAINTENANCE  
AND OPERATIONS.*

(c) Annually thereafter, every insurer, with the exception of title insurers and insurance companies writing less than \$500,000.00 in California premium, shall submit a written update report to the Fraud Division specifying any significant changes in the manner in which the insurer is complying with these Regulations. Title insurers and those writing less than \$500,000.00 in California premium shall report biennially. Insurer fraud investigation requirements are inapplicable to title insurers.

*SECTION 2698.41.    DEFINITIONS.*

(e) For the purpose of these regulations, "insurer" does not include Home Protection companies pursuant to California Insurance Code Sections ("CIC") 12740 et seq. and does not include reinsurers pursuant to CIC Sections 620 et seq.

These regulations were approved by the Office of Administrative law, they were filed with the Secretary of State on May 3, 1994 and became effective on June 2, 1994.

**CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit**

**1999 SIU COMPLIANCE REPORT**

NAME OF COMPANY \_\_\_\_\_

NAIC # \_\_\_\_\_

CA # \_\_\_\_\_

**CERTIFICATION PAGE**

If applicable, list the names of member companies within your group who are admitted in California. (Add additional pages if necessary.) **A form must be completed for each company that has a separate SIU.**

_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____
_____	NAIC# _____	CA# _____	- _____

**DESIGNATED CONTACT PERSON FOR QUESTIONS REGARDING THIS REPORT:**

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Mailing Address: \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

**C E R T I F I C A T I O N**

This certification is to be completed by an officer of the holder, or applicant of, the insurer's Certificate of Authority.

***I ATTEST THAT I HAVE PERSONAL KNOWLEDGE OF THE EXISTENCE AND MAINTENANCE OF A SPECIAL INVESTIGATIVE UNIT OR CONTRACTED ENTITY ESTABLISHED AND OPERATING FOR THE PURPOSES, OBJECTIVES, FUNCTIONS AND ACTIVITIES THAT ARE SET FORTH IN TITLE 10. CALIFORNIA CODE OF REGULATIONS SECTION 2698 ET SEQ.***

***I DECLARE UNDER PENALTY OF PERJURY, PURSUANT TO THE LAWS OF THE STATE OF CALIFORNIA, THAT THE FORGOING IS TRUE AND CORRECT AND THAT THIS DECLARATION WAS SIGNED ON \_\_\_\_\_, 1999, AT (LOCATION): \_\_\_\_\_.***

***Signature:*** \_\_\_\_\_ ***Print/type signer's name:*** \_\_\_\_\_

SIGNATURE OF AN OFFICER OF THE HOLDER, OR APPLICANT OF, THE CERTIFICATE OF AUTHORITY

**CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit**

**1999 SIU COMPLIANCE REPORT**

NAME OF COMPANY \_\_\_\_\_

NAIC # \_\_\_\_\_

CA # \_\_\_\_\_

**SIU PERSONNEL DIRECTORY**

**CCR §2698.44(a)** "Every insurer shall notify the Fraud Division in writing of the name(s) of the insurer's personnel, or the name of the organization with which the insurer has contracted for the maintenance of the SIU, who will communicate with the Fraud Division on matters related to the reporting, investigation and prosecution of suspected fraudulent claims. For the purpose of these regulations, the name(s) of the insurer's personnel who will communicate with the Fraud Division shall not be made part of the public record, and shall be released only pursuant to the provisions of CIC §1873.1 applicable to information acquired pursuant to Article 3 of the FPA." (Insurance Frauds Prevention Act)

**Number each employee listed below and use this number when referring to the employee in the body of this report.**

<b>#</b>	NAME:	TELEPHONE:
	TITLE:	FAX #:
	ADDRESS:	
	MAILING ADDRESS:	
	RESPONSIBILITIES:	
<b>#</b>	NAME:	TELEPHONE:
	TITLE:	FAX #:
	ADDRESS:	
	MAILING ADDRESS:	
	RESPONSIBILITIES:	
<b>#</b>	NAME:	TELEPHONE:
	TITLE:	FAX #:
	ADDRESS:	
	MAILING ADDRESS:	
	RESPONSIBILITIES:	
<b>#</b>	NAME:	TELEPHONE:
	TITLE:	FAX #:
	ADDRESS:	
	MAILING ADDRESS:	
	RESPONSIBILITIES:	

Duplicate and add additional pages if necessary

CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit

1999 SIU COMPLIANCE REPORT

NAME OF COMPANY \_\_\_\_\_

NAIC # \_\_\_\_\_

CA # \_\_\_\_\_

**INSTRUCTIONS FOR COMPLETING THE SIU COMPLIANCE REPORT**

1. Type or print clearly.
2. Provide complete and accurate answers to all questions.
3. Questions are clustered under related regulations and are numbered accordingly. Complete each answer by referencing the number of each question in the space provided.
4. The descriptions must include the insurer's anti-fraud plan as well as current calendar year activities and future planned activities. Any significant changes must include a description of the changes and their effective dates.
5. Do not include information regarding any future administrative procedures for more than two calendar years, unless pertinent to the explanation provided. If included, specify the anticipated effective date of the change.
6. The Certification Page of this report must include the name of the company for whom the report is being completed. All company members must be listed to reflect the complete group or company structure.
7. The number of claims processed in the Procedures Section (Questions #3 and #4), refers to individual totals by lines of business that are opened or closed during the most recently completed calendar year.
8. If applicable, attach a copy of the contract of the organization you have employed for the maintenance of your SIU.
9. If additional space is needed to provide answers, you may attach separate pages clearly referencing the specific section of the compliance report. (i.e., "Section; Procedures, Question #2, etc.")

***Documentation supporting the information submitted in this report must be available during any inspection/audit conducted by the California Department of Insurance.***

**CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit**

**1999 SIU COMPLIANCE REPORT**

NAME OF COMPANY \_\_\_\_\_

NAIC # \_\_\_\_\_

CA # \_\_\_\_\_

**PROCEDURES**

**CCR§ 2698.42 (a)** *“The establishment of a systematic and effective method to detect and investigate suspected fraudulent claims and to provide for their appropriate disposition.”* **CCR§ 2698.43 (a) (3)** *“The SIU shall establish written procedures to be followed by the insurer’s anti-fraud personnel. Such procedures shall include, but are not limited to, the application of patterns and trends indicating possible fraud, of specific ‘red flags’, ‘red flag events’ and other criteria indicating possible fraud, to specific claims for the purpose of assessing the possibility of fraud and the selection and referral of suspected fraudulent insurance claim files to the SIU.”*

1. Describe **the** method your company has established to detect, investigate, and refer suspected fraudulent claims (SFCs).
2. Describe the written procedures established by your SIU (contract if applicable), which was provided to your anti-fraud personnel with information on the applications of patterns and trends, “red flags,” “red flag events” and other criteria indicating possible fraud. Specify the date that these procedures were provided to your anti-fraud personnel.
3. Number of claims processed by your company during the most recently completed calendar year.  
# of claims: \_\_\_\_\_ Year: \_\_\_\_\_
4. Number of claims referred to your SIU during the most recently completed calendar year.  
# of claims: \_\_\_\_\_ Year: \_\_\_\_\_
5. Describe any proposed changes to your SFC identification, investigation and referral procedures, and the anticipated effective date of these changes.

Add additional pages if necessary

**CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit**

**1999 SIU COMPLIANCE REPORT**

NAME OF COMPANY \_\_\_\_\_

NAIC # \_\_\_\_\_

CA # \_\_\_\_\_

**EDUCATION AND TRAINING**

**CCR §2698.42 (b)** “to educate and train all claims handlers to identify possible insurance fraud through matching specific claims against patterns and trends indicating possible fraud and against specific ‘red flags’, ‘red flag events’ and other criteria indicating possible fraud.” **CCR §2698.43(a)(1)** “The SIU shall provide ongoing fraud education and training to the insurer’s personnel who have responsibilities which are integral to the insurer’s corporate anti-fraud strategy and such training shall include, but is not limited to, claims handlers.” **CCR §2698.43(a)(2)** “The SIU shall provide ongoing fraud education and training to the insurer’s employees who are the insurer’s integral, anti-fraud personnel, which is sufficient to enable such personnel to provide the SIU with appropriate information that is adequate to execute the SIU’s anti-fraud functions. Such information shall include, but is not limited to, the identification of patterns and trends indicating possible fraud, in the specific lines of insurance handled by the insurer.” **CCR §2698.43(a)(4)** “The SIU shall establish training for SIU employees which will enable the employees to effectively analyze claims information, pursue appropriate investigations, conduct appropriate and effective interviews; use available database resources; provide comprehensive and appropriate support to the insurer’s anti fraud personnel and work cooperatively with law enforcement agencies, including, but not limited to, the Fraud Division. For the purpose of these regulations, the following activities shall be considered part of an appropriate investigation: **(A)** a thorough review of the claims file; **(B)** the identification of all potential witnesses who may provide relevant information on the truth or falsity of the claim; **(C)** the preservation of relevant documents. For the purpose of these regulations, “relevant” has the same meaning as it is given in CIC §1874.1(b); **(D)** the preparation of a concise summary of the completed investigation, setting forth the investigator’s conclusion(s) regarding the suspected fraudulent claim and the basis for said conclusion.”

1. Indicate the type and frequency of ongoing anti-fraud education and training the SIU provided to integral anti-fraud personnel and claims handlers of your company. Include the method used to verify the employees’ attendance (e.g., employee certification, sign in logs, other).
2. List the title, date and source of education and training your SIU (include contract if applicable) have received for the required reporting period as indicated in #5 of the instructions and the method used to verify the employees’ attendance. (e.g., employee certification, sign in logs, other). List who is responsible for maintaining these training records for verification purposes and where these records are located.
3. Describe how your SIU personnel comply with the activities, outlined in CCR §2698.43(a)(4)(A-D), that are considered part of an appropriate investigation.
4. Describe any proposed anti-fraud training that is currently scheduled to occur, the insurer staff involved, subject to be covered, and the proposed date, place and organization providing the training.

Add additional pages if necessary

**CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit**

**1999 SIU COMPLIANCE REPORT**

NAME OF COMPANY \_\_\_\_\_

NAIC # \_\_\_\_\_

CA # \_\_\_\_\_

**ORGANIZATION AND STAFFING**

**CCR §2698.43(b)(1):** "The SIU shall have adequate staffing, and the staff shall have sufficient expertise to assure the timely investigation and disposition of suspected fraudulent claims which are referred to the SIU." **CCR §2698.43(b)(2):** "The SIU shall be sufficiently staffed, according to the volume of possible fraudulent claims in a given geographic area and the total number of policies written in each class of insurance offered by the insurer, to enable the SIU to meet the objectives set forth in §2698.42." **CCR §2698.43(b)(3):** "An SIU which is maintained by the insurer shall be comprised of employees who have expertise in general claims practices; knowledge of the analysis of claims for patterns of fraud; knowledge of current trends in fraudulent claims, knowledge of specific 'red flags', 'red flag events' and other criteria indicating possible fraud and knowledge of effective and appropriate methods of suspected fraudulent claims investigation; as well as knowledge of insurance and other relevant laws related to insurance fraud and knowledge of the use of available database resources containing information to support the SIU's investigative activities." **CCR §2698.43(b)(4):** "The SIU shall be capable of conducting in-service training in fraud detection for the insurer's anti-fraud personnel as set forth in §2698.43(a), including, but not limited to, claims handlers." **CCR §2698.43(c)(3):** "a written description or chart outlining the organization arrangement of the insurer's anti-fraud personnel who are responsible for the investigation and reporting of suspected fraudulent claims."

1. Describe the expertise of your SIU staff. (Identify the individuals by using the number opposite their name on the SIU Personnel Directory of this report.) Include relevant staff experience such as any prior law enforcement experience, prior insurance related experience and/or anti-fraud or related training which qualifies them as SIU personnel.
2. Describe how the SIU is capable of conducting in-service training as per CCR §2698.43(b)(4).
3. Explain how your SIU is adequately staffed as required by CCR §2698.43(b)(1); include any criteria used to make this determination.
4. Provide an organizational chart of your anti-fraud personnel structure.
5. Provide a description of any proposed changes to the staffing and/or organization of your SIU and the anticipated effective date of these changes.

Add additional pages if necessary



**CALIFORNIA DEPARTMENT OF INSURANCE  
FRAUD DIVISION – SIU Inspection/Audit Unit**

**1999 SIU COMPLIANCE REPORT**

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CA # \_\_\_\_\_

**COMMUNICATION AND REPORTING**

**CCR §2698.42(c)** “to facilitate insurer communications with the Fraud Division and insurer reporting of suspected fraudulent claims to local district attorneys. For the purpose of these regulations, such communications between the insurer(s) and the Department shall be subject to the provisions of CIC Sections 1872.5 and §1873.2 and;” **CCR §2698.43(4)(c)** “The SIU shall cooperate with the Fraud Division and other relevant law enforcement agencies and authorized governmental agencies to: (1) assure compliance with Sections 1872.4 and 1877.3 of the Insurance Code; (2) provide a prompt response to requests made in the course of any criminal or civil investigation undertaken by authorized governmental agencies or law enforcement pursuant to Chapter 12 of the FPA and (3) coordinate and participate in anti-fraud training.” **CCR §2698.44(c)** “Annually thereafter, every insurer, with the exception of title insurers and insurance companies writing less than \$500,000.00 in California Premium, shall submit a written update report to the Fraud Division specifying any significant changes in the manner in which the insurer is complying with these Regulations. Title insurers and those writing less than \$500,000.00 in California premium shall report biennially. These reports shall include, but shall not be limited to: (1) a description of the insurer’s procedures for detecting, investigating and reporting potentially fraudulent claims; (2) a description of the insurer’s plan for training anti-fraud personnel pursuant to Section 2698.43 of these Regulations and;” **CCR §2698.44(d)** “Insurers who enter into contracts for the purpose of compliance with Sections 1875.20, 1875.21, 1875.22 and 1875.23 and these Regulations shall provide a copy of the contract to the Department and shall specify the manner in which the contract is monitored”.

1. Describe, citing specific procedures, controls and examples, how your SIU has met the requirement of insurer communications with the CDI, Fraud Division and local district attorney offices, in reporting SFCs. Include a description of the controls for the required reporting periods of either 30 or 60 days, as applicable.
2. Specify the total number of SFCs that have been reported to the CDI, Fraud Division for the most recently completed calendar year.  
# of SFC's: \_\_\_\_\_ Year: \_\_\_\_\_
3. Specify the total number of SFCs that have been reported to local district attorney offices for the most recently completed calendar year.  
#of SFC's: \_\_\_\_\_ Year: \_\_\_\_\_
4. Describe the controls and procedures you have implemented that ensure a prompt response to requests for information by authorized government agencies, relative to criminal or civil investigations.
5. Cite specific examples of when your SIU has coordinated and/or participated in anti-fraud training with the CDI, Fraud Division and/or other relevant law enforcement or authorized government agencies for the required reporting period. Indicate the date of the event, the agency involved and subject matter taught.
6. If the company has contracted with an external organization or person(s) for the purpose of compliance with the establishment and maintenance of their SIU; attach a signed copy of the contract establishing the agreement with any modifications or amendments thereof including any addendum, schedules, exhibits and attachments thereto. Provide a description of how your company has monitored the contractual requirements.
7. Describe any proposed changes to your procedures for SFC reporting, responding to agency requests for information, external agency training coordination or utilization of an organization with which you may have contracted for SIU functions. Indicate the anticipated effective date of these proposed changes.

Add additional pages if necessary